

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

17. Commitments And Contingencies

Purchase Commitments - In December 1994, PacBell contracted for the purchase of up to \$2,000 of Advanced Communications Network ("ACN") facilities, which incorporated new technologies. During 1995, the ability to deploy the facilities outstripped the ACN vendors' ability to deliver necessary products and software. Accordingly, management decided to suspend construction at certain sites, which reduced the expected cost to less than \$700. If ACN facilities meet certain quality and performance criteria (the Network Test), PacBell is committed to purchase the ACN facilities in 1998. If ACN facilities are acquired, due to competition or other factors affecting PacBell's ability to recover its investment in these facilities, their value to PacBell could be materially impaired. If ACN facilities fail the Network Test, PacBell will not be committed to buy the ACN facilities but might be liable to reimburse the principal ACN vendor for some construction costs up to \$300, which would also result in a material charge

As of December 31, 1996, PacBell had purchase commitments of about \$208 remaining in connection with its previously announced program for deploying an all digital switching platform with ISDN and SS-7 capabilities.

Revenues Subject to Refund - In 1992, the CPUC issued a decision adopting, with modification, FAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," for regulatory accounting purposes. Annual price cap decisions by the CPUC granted PacBell approximately \$100 in each of the years 1993-1996 for partial recovery of higher costs under FAS 106. In October 1994 the CPUC reopened the proceeding to determine the criteria for exogenous cost treatment and whether PacBell should continue to recover these costs. The CPUC's order also held that related revenues collected after October 12, 1994, were subject to refund plus interest pending this future proceeding. Subsequently, the CPUC reaffirmed that postretirement benefits costs are appropriately recoverable in PacBell's price cap filings.

Property Tax Investigation - In 1992, a settlement agreement was reached between the State Board of Equalization, all California counties, the State Attorney General, and 28 utilities, including PacBell, on a specific methodology for valuing utility property for property tax purposes for a period of eight years. The CPUC opened an investigation to determine if any resulting property tax savings should be returned to customers. Intervenors have asserted that as much as \$20 of annual property tax savings should be treated as an exogenous cost reduction in PacBell's annual price cap filings. These intervenors have also asserted that past property tax savings totaling as much as approximately \$70 as of December 31, 1996, plus interest should be returned to customers. Management believes that, under the CPUC's regulatory framework, any property tax savings should be treated only as a component of the calculation of shareable earnings and not as an exogenous cost. In an Interim Opinion issued in June 1995, the CPUC decided to defer a final decision on this matter pending resolution in a separate proceeding of the criteria for exogenous cost treatment under its regulatory framework.

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

18. Quarterly Financial Information (Unaudited)

Calendar Quarter	Total		Net Income (Loss)	Earnings per Common Share	Stock Price ⁽⁴⁾			
	Operating Revenues	Operating Income			High	Low	Close	
1996								
First ⁽¹⁾	\$ 5,574	\$ 1,458	\$ 888	\$ 0.96	\$ 60.250	\$ 49.750	\$ 52.625	
Second	5,738	1,489	803	0.87	50.750	46.250	49.250	
Third	5,957	1,532	867	0.94	51.000	46.000	48.125	
Fourth	6,217	1,357	721	0.79	55.250	47.000	51.875	
Annual ⁽¹⁾	\$ 23,486	\$ 5,836	\$ 3,279	\$ 3.56				
1995								
First	\$ 5,164	\$ 1,233	\$ 695	\$ 0.76	\$ 43.875	\$ 39.625	\$ 42.000	
Second	5,256	1,301	712	0.78	47.875	41.625	47.625	
Third ⁽²⁾	5,567	1,432	(5,207)	(5.64)	55.125	45.500	55.000	
Fourth ⁽³⁾	5,725	1,154	736	0.80	58.500	53.125	57.250	
Annual ⁽²⁾	\$ 21,712	\$ 5,120	\$ (3,064)	\$ (3.33)				

- (1) Net Income and Earnings per Common Share reflect a cumulative effect of accounting change of \$90 or \$0.10 per share from change in accounting for directory operations.
- (2) Net Loss and Earnings per Common Share reflect an extraordinary loss of \$6,022, or \$6.55 per share, from discontinuance of regulatory accounting.
- (3) Operating Income reflects \$139 in selling, general and administrative expenses associated with a strategic realignment of functions. These expenses include postemployment benefits for approximately 2,400 employees arising from the consolidation of operations within the five-state area, streamlining support and administrative functions and integrating financial systems.

Net Income and Earnings per Common Share reflect after-tax charges of \$88 for the strategic realignment of functions and \$11 for refinancing of debt and an after-tax gain of \$111 from the merger of SBC's United Kingdom cable television operations into TeleWest. The net of these transactions was \$12, or \$0.01 per share.

- (4) Represents historical trading of SBC common stock. Prices have not been adjusted to reflect the merger with PAC.

(b) Exhibits

Exhibit 18 **Preferability letter on changes in accounting.**

Exhibit 23-a **Consent of Ernst & Young LLP.**

Exhibit 23-b **Consent of Coopers & Lybrand L.L.P.**

Exhibit 27 **Financial Data Schedule.**

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SBC Communications Inc.

/s/ Donald E. Kiernan

Donald E. Kiernan

**Senior Vice President, Treasurer
and Chief Financial Officer**

May 8, 1997

EXHIBIT INDEX

<u>Exhibit Number</u>	
18	Preferability letter on changes in accounting.
23-a	Consent of Ernst & Young LLP.
23-b	Consent of Coopers & Lybrand L.L.P.
27	Financial Data Schedule.

EXHIBIT 18

May 8, 1997

**Mr. Donald Kiernan
Senior Vice President, Treasurer and
Chief Financial Officer
SBC Communications Inc.
175 W. Houston Street
San Antonio, Texas 78205**

Dear Mr. Kiernan:

Note 3 of Notes to Consolidated Financial Statements of SBC Communications Inc. (SBC) included in its Form 8-K filed in connection with the merger of SBC and Pacific Telesis Group (PAC) describes changes in the methods of accounting for pensions, postretirement benefits, and sales commissions. You have advised us that you believe that the changes are to conform the accounting methods of SBC and PAC and that the new methods are preferable because the new methods for pensions and postretirement benefits are more widely used and the new method for sales commissions is prevalent industry practice.

We conclude that the changes in the methods of accounting for the items described above are to acceptable alternative methods which, based on your business judgment to make these changes for the reasons cited above, are preferable in your circumstances.

ERNST & YOUNG LLP

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) pertaining to the SBC Savings Plan and Savings and Security Plan (Nos. 33-54309 and 333-24295), the Stock Savings Plan, Management Stock Savings Plan and Stock Based Savings Plan (Nos. 33-37451 and 33-54291), the SBC Communications Inc. 1992 Stock Option Plan (No. 33-49855) and the SBC Communications Inc. 1995 Management Stock Option Plan (No. 33-61715), and in the Registration Statements (Forms S-3) pertaining to the SBC Communications Inc. Dividend Reinvestment Plan (No. 333-08979), and SBC Communications Capital Corporation and SBC Communications Inc. (Nos. 33-45490 and 33-56909), and in the related Prospectuses of our report dated February 14, 1997 (except Note 3, as to which the date is April 1, 1997), with respect to the supplemental consolidated financial statements included in this Current Report (Form 8-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

San Antonio, Texas
May 7, 1997

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Form 8-K of SBC Communications Inc. of our report dated February 27, 1997, on our audits of the consolidated financial statements and financial statement schedule of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996.

Coopers & Lybrand L.L.P.

**San Francisco, California
May 8, 1997**

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THIS SCHEDULE CONTAINS SUMMARY FINANACIAL INFORMATION EXTRACTED FROM SBC COMMUNICATIONS INC.'S DECEMBER 31, 1996 SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<F1> THIS AMOUNT IS IMMATERIAL.

<F2> NET SALES OF TANGIBLE PRODUCTS IS NOT MORE THAN 10% OF TOTAL OPERATING REVENUES AND THEREFORE HAS NOT BEEN STATED SEPARATELY IN THE FINANCIAL STATEMENTS PURSUANT TO REGULATION S-X, RULE 5-03(B). THIS AMOUNT IS INCLUDED IN THE "TOTAL REVENUES" TAG.

<F3> COST OF TANGIBLE GOODS SOLD IS INCLUDED IN COST OF SERVICES AND PRODUCTS IN THE FINANCIAL STATEMENTS AND THE "TOTAL-COST" TAG, PURSUANT TO REGULATION S-X, RULE 5-03(B).

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REPORT OF INDEPENDENT ACCOUNTANTS

**To the Board of Directors and Shareowners
of Pacific Telesis Group:**

We have audited the accompanying consolidated balance sheets of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basis financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Note A to the Consolidated Financial Statements, Pacific Bell, a subsidiary of Pacific Telesis Group, changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. Also discussed in Note A, Pacific Bell discontinued its application of Statement of Financial Accounting Standards No. 71 during 1995.

/s/ Coopers & Lybrand L.L.P.

**San Francisco, California
February 27, 1997**

ATTACHMENT F

SBC's 1997 GROWTH PROFILE

ATTACHMENT G

CELLULAR COVERAGE MAP AND MATRIX

SBC's and SNET's Complementary Cellular Properties



CMRS Service Territories in New England and Upstate New York (by state)*

	Bell Atlantic	Sprint PCS	AT&T Wireless	Nextel	Omni- point	SBC	SNET
Conn.	X	X	X	X	X		X
Maine	X	X	X	X			
Mass.	X	X	X	X	X	X	X
N.H.	X	X	X	X	X	X	
N.Y.	X	X	X	X	X	X	
R.I.	X	X	X	X			X
Vermont	X	X		X	X		

*Carriers authorized to provide CMRS service in a portion of (or all of) the state.

DOCUMENT OFF-LINE

This page has been substituted for one of the following:

- o An oversize page or document (such as a map) which was too large to be scanned into the RIPS system.

- o Microfilm, microform, certain photographs or videotape.

- ✓ Other materials which, for one reason or another, could not be scanned into the RIPS system.

The actual document, page(s) or materials may be reviewed by contacting an Information Technician. Please note the applicable docket or rulemaking number, document type and any other relevant information about the document in order to ensure speedy retrieval by the Information Technician.

ATTACHMENT F

GROWTH PROFILE

(SEE PART 22 FOR
PROFILE)